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SUBJECT: Taiwan Pharma: BNHI Cuts Drug Rates, Pushes Standard Contracts

¶1. (SBU) Summary: The Taiwan authorities are taking steps on drug pricing that will both disappoint and hearten the U.S. pharmaceutical industry. Despite a media and lobbying campaign by U.S. and other foreign drug makers urging the Taiwan Bureau of National Health Insurance (BNHI) to delay the latest round of price-cuts, BNHI announced on August 2 that it has stopped accepting appeals from drug companies regarding its July 19 price list and will reduce pharmaceutical reimbursement rates from September 1 as planned. In better news, BNHI told AIT on August 9 that the Department of Health (DOH) will pass an amended National Health Insurance (NHI) Law to the Executive Yuan (EY) that will require hospitals to use a Mandatory Standard Contract (MSC) for all purchase agreements with drug companies, which would help prevent hospitals from asking makers for under-the-table discounts. End summary.

Drug Prices Drops Anger Industry

¶2. (U) On August 8, BNHI announced that it will implement the latest round of drug price reimbursement reductions from September 1 as originally planned. BNHI announced the new price cuts on July 19 and based its data on generic groupings of prices gathered during an early-2007 re-check of the 2006 Price Volume Survey (PVS) results. BNHI allowed appeals from drug companies on individual prices until August 2, but has not announced any changes to the original re-check's conclusions. [Note: BNHI ordered the re-check in the wake of May 2006 raids by the Tainan Prosecutor's Office on several hospitals and companies for allegedly filing false drug-pricing data with BNHI. The process ended in February 2007, and resulted in the July announcement that BNHI would adjust average reimbursement amounts downward. End note.]

¶3. (SBU) After the July 19 announcement, the Taiwan-based International Research-based Pharmaceutical Manufacturers Association (IRPMA)--which represents the interests of original drug manufacturers in Taiwan--launched a media and lobbying campaign to pressure BNHI to delay or reverse the price cuts. BNHI, however, ignored the effort and re-iterated on August 6 that it would accept no further input from drug makers and would implement price cuts as scheduled.

¶4. (SBU) In other drug price news, during an August 9 meeting with econoff, Dr. Cheng-hua Lee, BNHI's Vice President, confirmed local press reports that BNHI plans to examine individual drug prices paid by hospitals once every six months during the three-year period after a medicine's patent expires. This would be a significant reduction of the current one- to two-year break between price reviews, and is further evidence of continuing budget pressures on the nationalized health insurance program.

¶5. (SBU) According to DOH National Health Insurance Task Force member Sharon Lin, the DOH decided on August 6 to recommend that the Executive Yuan (EY) amend the National Health Insurance (NHI) Law to require all hospitals to use a Mandatory Standard Contract (MSC) for all price agreements with drug companies. On August 9, BNHI's Dr. Lee told econoff that the Executive Yuan will take up the issue of amending the NHI Law to require MSCs by the end of August, and that the EY will then submit an amended NHI bill to the Legislative Yuan (LY) before the end of September. He was pessimistic, however, that the LY will do anything with the bill before its elections at the end of this year, since changes to the health insurance system will be controversial.

¶6. (U) If passed, the amended law would make price agreements more transparent and help prevent hospitals from asking makers for additional, under-the-table discounts, thereby reducing large gaps between the lower drug prices that hospitals pay and the higher amounts that BNHI reimburses them. This gap is the so-called "black hole" in the health care system that industry claims unfairly reduces drug prices while raising Taiwan's health-care costs and lining hospitals' pockets.

Comment

¶7. (SBU) U.S. and other foreign pharmaceutical manufacturers are unhappy that BNHI will go ahead with further drug price cuts, but BNHI's actions are unsurprising given its past reluctance to allow substantial foreign industry input into pricing decisions. As for the BNHI plan to amend the National Health Insurance Law to require MSCs, even if the EY sends an amended NHI Law to the LY before the

TAIPEI 00001788 002 OF 002

end of September, passage is uncertain and at least six months off. Still, it's a victory for the TIFA process: according to Dr. Lee, BNHI originally approached hospitals about using MSCs voluntarily, but the reaction was so negative that BNHI, mindful of U.S. TIFA requests, decided to go the legislative route. AIT will track the amended bill's progress and continue to press the Taiwan side on the importance of speedily implementing MSCs. End comment.